FINANCIAL INITIATIVES

BRIEFING PACKAGE

Honourable Lorne H. Hepworth
Minister of Finance
February 20, 1991

Background:

In the past year, a number of announcements have been made which either had financial consequences for the provincial government or were of importance as financial management measures. These include:

October, 1990 - **In response to the Report of the GST Advisory Committee, the Minister of Finance announced that the Province would levy the provincial sales tax (Education and Health Tax) on the pre-GST price (or beside the GST) at an annual cost of $25 million to the provincial treasury.**

November, 1990 - **Premier Grant Devine announced a number of measures to help the Province to face the New Realities and promised that further streamlining of government operations would be announced.**

November, 1990 - **The Minister of Finance provided a mid-year update on the state of the provincial economy and the Province's finances. At the same time, the Minister announced a number of specific measures to increase government accountability, including early reporting requirements and greater autonomy for the provincial auditor. The Minister also announced that efficiency measures would be forthcoming.**

December, 1990 - **The Minister of Finance released the Main Financial Statements for the year ended March 31, 1990. This early release was in keeping with the Minister's November commitment to increased government accountability.**

January, 1991 - **The Premier announced further streamlining of government operations, including the elimination of seven government departments and agencies and the creation of one new department.**

The Minister of Finance announced major financial initiatives to reduce spending and increase efficiency, including:

- **freezing Cabinet Ministers' and Legislative Secretaries' salaries for a second consecutive year;**
- **eliminating 600 positions in government departments and Crown corporations over the next two years;**
- **restricting public sector wage and compensation settlements to a maximum of 4% for the current round of bargaining;**
- **filling only essential positions through stringent vacancy management;**
- **prohibiting new vehicle purchases for the 1991 calendar year;**
- **restricting purchases of office furniture and computers; and,**
- **continuing restrictions on government travel.**

Today's Announcements:

Following the announcement of an agreement between Saskatchewan and the federal government for the new farm safety net programs, the Gross Revenue Insurance Program (GRIP) and the Net Income Stabilization Account (NISA), additional room in the provincial budget must be found to ensure funding for these programs.

At the same time, it is important that our partners in the provision of services, hospitals, municipalities, schools and universities, as well as others know what they can expect from the provincial government in terms of funding support for the next year. This will allow these groups to plan their own budgets.

Accordingly, today's announcements and their effect on the provincial budget can be summarized as follows:

	$ Millions
ADDING TO THE DEFICIT:	
Funding for GRIP/NISA programs	125.3
Health care institutions increased 3.5% (ie. hospitals, special care homes)	30.7
K-12 Schools operating grants increased 3.5%	12.6
Universities operating grants increased 3.5%	5.4
SIAST operating grants increased 3.5%	1.7
Regional Colleges operating grants increased 3.5%	0.2
REDUCING THE DEFICIT:	
MLA salary and severance reductions	(0.2)
GST Harmonization and other tax changes	(126.3)
Urban revenue sharing grants reduced 7.5% (with 10% safety net pool)	(4.6)
Department of Rural Development funding reduced 10.0%	(7.7)
Mortgage Protection Plan subsidy rate increased to 13.25%	(26.5)
Prescription Drug Plan Co-Payment increased to 25%	(9.8)
Elimination of Business Tax Assistance Program	(6.7)
Elimination of Small Business Investment Program	(2.6)
Education Development Fund maintained at 50%	(7.2)
Advanced Education Enhancement Fund at 0%	0.0
No provision for French School Governance	(2.5)
Reduction of grants to other organizations such as recreational organizations and advocacy groups	(4.0)

Note: Increases in spending and reductions in revenue are shown as positive numbers as they represent items which increase the province's deficit. On the other hand, increases in revenues and decreases in spending are shown as negative numbers.

Details on each of these measures are provided in the Appendix.

Timing of the Announcement:

There are several reasons why these measures are being announced now.

- The Minister of Finance Pre-Budget Tour of the province is now complete and many of the suggestions made on the tour lend themselves to immediate introduction.

- Announcement of the third party grant levels allows more time for them to undertake planning of their own budgets. This is also in line with the recent announcements for third party funding in Manitoba, Alberta and Ontario.

- Vendors in the Province will benefit from as much lead time as possible in accommodating the changes to the Education and Health Tax.

- These announcements will lay the ground work for the 1991-92 provincial budget which is currently under preparation.

Rationale for Announcements:

The announcements are designed to meet a number of objectives.

Supporting Priority Programming in Agriculture, Health and Education.

Funding is provided for the new GRIP/NISA programs and the funding for hospitals, special care homes, schools, universities, SIAST and regional colleges are increased for the next year.

A balance must be maintained in reducing the deficit.

Measures to offset expenditure increases are balanced between expenditure reductions in other areas and tax increases.

Agriculture safety net programs are financed through GST harmonization. Increases in health and education funding and reductions in the deficit are accomplished through other expenditure reduction options.

Savings must start at the top.

The first savings will be found from freezing MLAs' salaries and eliminating severance packages for MLAs.

Responsibility must be shared evenly.

New programming for agriculture and increased payments for health and education must be supported by contributions from individuals, business and communities.

Measures are intended to promote greater individual and community responsibility.

The individuals' and communities' stake in government programming is increased to encourage greater consciousness of the cost of government and the use of public funds.

APPENDIX

DETAILS OF MEASURES

HEALTH THIRD PARTY GRANTS

MEASURE

Increase operating payments for health care institutions by 3.5% in 1991-92 (that is, for hospitals and special care homes).

Special consideration beyond 3.5% will be given to funding for home care and the Cancer Foundation.

EFFECTIVE DATE

These funding increases for hospitals and special care services are effective April 1, 1991.

Funding levels for home care and the Cancer Foundation will be announced as part of the budget.

EFFECT ON PUBLIC PURSE

- 1991-92 payments for Hospital Services - $681.5M, an increase of $23.0M over 1990-91.
- 1991-92 grants and allowances for Special Care Home Services - $228.6M, an increase of $7.7M over 1990-91.

AFFECTED PERSONS/GROUPS

Hospitals, special care homes, home care boards and the Cancer Foundation.

RATIONALE

Transfer payments to local governments, school boards and health care facilities account for approximately one-half of total government expenditures.

These funding increases for hospital and special care services are comparable to recent funding announcements in both Alberta and Manitoba which recognize the importance of major government funding recipients to provincial efforts to reduce the deficit.

Additional funding is being considered for funding for home care and the Cancer Foundation in recognition of their special circumstances.

EDUCATION THIRD PARTIES

MEASURE

A 3.5% increase for operating payments to universities, school boards, federated colleges, regional colleges and the Saskatchewan Institute of Applied Science and Technology for 1991-92.

The Advanced Education Enhancement Fund (post-secondary system) will be maintained at 1990-91 levels.

The Education Development Fund will be reduced by 50%.

EFFECTIVE DATE

April 1, 1991

EFFECT ON PUBLIC PURSE

Funding announcements for education institutions will carry the following implications:

K-12 Operating Grants (up $12.6M)	$372.9M
Education Development Fund (at 50%)	$7.2M
Universities Oper. Grant (up $5.4M)	$159.2M
*AEEF Universities (status quo)	$8.5M
SIAST Oper. Grant (up $1.7M)	$51.5M
*AEEF SIAST (status quo)	$7.1M
Regional Colleges (up $.2M)	$6.0M
*AEEF Regional Colleges	$1.7M

* Advanced Education Enhancement Fund

AFFECTED PERSONS/GROUPS

Universities, Federated Colleges, Schools, SIAST and Regional Colleges.

RATIONALE

Payments to schools, universities, hospitals and other major third parties account for approximately one-half of total government expenditures. It is essential that these institutions participate in any attempt to control the deficit.

The major consideration in establishing K-12 operating grants was to ensure that the government met its commitment to fund 50% of the cost of last year's settlement with teachers.

MLA SALARY & ALLOWANCE ROLLBACK AND ELIMINATION OF SEVERANCE PACKAGES FOR MLAs

MEASURE

The 4.3% increase in salary and allowances that all MLAs received at the beginning of the year will be rolled-back and frozen until the budget is balanced.

Severance packages for all MLAs will be eliminated.

EFFECTIVE DATE

Immediate recommendation.

EFFECT ON PUBLIC PURSE

$161,300 in 1991-92 for salary and allowance rollback and an indeterminant amount for the elimination of severance packages.

AFFECTED PERSONS\GROUPS

All current and future MLAs will be affected by the roll-backs. Average reduction in salary and allowances will be $2,520 per MLA in 1991-92.

The elimination of severance packages will affect all current MLAs to a varying degree depending on years of service and level of responsibility.

RATIONALE

It is recognized that fiscal restraint should start at the top. Although these measures are relatively small in terms of the overall management plan, they are an important demonstration that all sectors of the province must share in the burden of deficit reduction.

GST HARMONIZATION

MEASURE

Two staged harmonization of the provincial sales tax with the federal GST.

EFFECTIVE DATE

Effective April 1, 1991, stage 1 of harmonization will occur with the expansion of the provincial sales to include most goods, including restaurant meals, snack foods and clothing. Also commencing in April will be the application of the Fuel Tax to fuel consumed in stationary engines.

Effective February 21, 1991 the Tobacco Tax levied on cut tobacco and tobacco sticks will be increased.

To offset the impact of harmonizing the provincial sales tax with the GST, the Saskatchewan Family Tax Credit is introduced. It will be paid to lower income families commencing in April of this year. The Credit is equal to $200 per child and is reduced as family income rises above $24,355.

Effective January 1, 1991, the high income Surtax will be increased from 12% to 15%.

Effective January 1, 1992, stage 2 of harmonization will result in the provincial sales tax being fully harmonized with the GST, including the introduction of input tax credits for businesses.

Effective January 1, 1992, the general corporate tax rates are increased:

- the Corporate Income Tax rate is increased from 15% to 16%; and,
- the Corporate Capital Tax rate is increased from 0.5% to 0.6%.

EFFECT ON PUBLIC PURSE

Incremental revenue of $126.3 million in 1991-92; $181.1 million in 1992-93.

AFFECTED PERSONS/GROUPS

All elements of the Saskatchewan public.

RATIONALE

Harmonization of the provincial sales tax with the GST will achieve five objectives:

- **provide the financing for the protection of Saskatchewan's farmers through programs like GRIP and NISA;**
- **reduce complexity and confusion at the cash register for consumers and businesses;**
- **reduce duplication and overlap in government sales tax administration;**
- **improve the fairness of provincial taxation, with special emphasis to the family; and,**
- **improve Saskatchewan's competitiveness in a changing world economy.**

SALES TAX COMMISSIONS

MEASURE

Increasing E & H Tax and Liquor Consumption Tax commission benefits to small business.

The current commission structure is 7% of the first $300 of tax collected per month, plus 1% of the balance. The annual maximum commission is $5,000. To increase benefits to small business, the commission structure will be changed to 10% of the first $250 of tax collected per month plus 1% of the balance. The annual maximum will be $1,800.

EFFECTIVE DATE

The effective date will be April 1, 1991 to coincide with the first stage of GST harmonization.

EFFECT ON PUBLIC PURSE

This measure will have no effect on the public purse as the total cost of commissions will remain at the same level as under the current commission structure. Total E & H Tax and Liquor Consumption Tax commissions paid in 1989-90 were about $6.1 million.

AFFECTED PERSONS/GROUPS

About 500-600 collectors (out of a total of 35,000) will receive a lower commission because of the reduced maximum. All other collectors will either receive the same or a higher commission. Most small businesses will receive an annual increase of about $50, or a 20% increase.

RATIONALE

The GST Advisory Committee recommended that the commission structure be changed to provide increased benefits to small businesses without increasing the total cost of commissions. The new commission structure is in accordance with this recommendation.

URBAN REVENUE SHARING

MEASURE	**Reduce Urban Revenue Sharing by 7.5%.**
EFFECTIVE DATE	**Immediately**
EFFECT ON PUBLIC PURSE	**$4.6M savings in 1991-92.**
AFFECTED MUNICIPALITIES	**520 Urban Municipalities**
RATIONALE	**If the total reduction is passed on by municipalities, the anticipated impact on mill rates is only 2.1% on average or an additional $9/year for each taxpayer.** **The government will provide approximately $500,000 for a safety net pool to ensure that no municipality will receive less than 90% of their 1990-91 share.** **Urban municipalities must be part of the solution to the current economic situation.**

MORTGAGE PROTECTION PLAN

MEASURE

Increase interest rate subsidy under the MPP from 10¾% to 13¼%.

EFFECTIVE DATE

March 1, 1991

EFFECT ON PUBLIC PURSE

MPP would have cost approximately $42M for 1990-91 (includes admin costs). If one-year mortgages stay at 11¼% MPP would cost $30M for the next fiscal year. By changing the subsidy rate to 13¼%, MPP will only cost $4-5M for 1991-92.

AFFECTED PERSONS/GROUPS

18% of Saskatchewan households (65,000 homeowners) currently benefit from MPP. Average benefits in 1990-91 were $56/month. Effective March 1, 1991, 40,000 homeowners will no longer receive benefits. The average benefits for the remaining homeowners will be reduced to $22/month. As these homeowners renew their mortgages (assuming mortgage rates remain stable or decline further) less government assistance will be required.

RATIONALE

Saskatchewan has some of the most affordable housing prices in Canada.

MPP was introduced in 1982 to protect homeowners from mortgage rates above 13¼%. At that time mortgage rates were as high as 19%. Rates have now eased to where one year mortgages are available at 11¼%.

Fiscal constraints have evolved to where government must alter its priorities. Consequently, the subsidy rate is being returned to the 13¼% level introduced in 1982. The increase in subsidy rate balances government's commitment to fiscal responsibility and protects homeowners against excessively high mortgage rates.

PRESCRIPTION DRUG PLAN - CONSUMER CO-PAYMENT INCREASE

MEASURE

Increase the prescription drug plan consumer co-payment from 20% to 25%.

EFFECTIVE DATE

March 8, 1991

EFFECT ON PUBLIC PURSE

Estimated saving in 1991-92 - $9.8M.

AFFECTED PERSONS/GROUPS

Number of beneficiaries under the prescription drug plan program.

373,000 families
45,100 seniors (couples)
44,300 seniors (singles)

Number of individuals who do not exceed the current deductibles.

254,290 families
5,580 seniors (couples)
7,640 seniors (singles)

Number of individuals who exceed the current deductibles.

118,710 families
39,520 seniors (couples)
36,660 seniors (singles)

Average number of prescriptions per year.

12.3 - families
25.6 - seniors (couples)
17.6 - seniors (singles)

The average net cost per prescription to the consumer of $9.04 will increase by $2.26.

RATIONALE

- Drug plan expenditures have increased by 51.3% since 1987-88.
- Drug plan utilization growth has averaged between 4% to 5% annually.
- Increasing the consumer co-payment will increase the level of personal responsibility for health, thereby reducing the growth.
- Reduced drug plan utilization will result in savings that will ensure other health care expenditures are protected.

BUSINESS TAX ASSISTANCE PROGRAM

MEASURE	Discontinue the Business Tax Assistance Program
EFFECTIVE DATE	April 1, 1991
EFFECT ON PUBLIC PURSE	$6,700,000 savings in 1991-92.
AFFECTED PERSONS/GROUPS	Businesses in Saskatchewan who pay property taxes.
RATIONALE	Business Tax Assistance was designed to provide local governments a 3 year time frame to adjust to property taxes. The program was initially intended to run from its introduction in 1989-90 through 1991-92. The program is being sunsetted 12 months earlier in conjunction with harmonization of the provincial sales tax with the GST.

SMALL BUSINESS INVESTMENT INCENTIVES PROGRAM

MEASURE

Cancel Small Business Investment Incentives Program

EFFECTIVE DATE

Immediately

EFFECT ON PUBLIC PURSE

$2.6M in savings on grants and administration.

AFFECTED PERSONS/GROUPS

Equity investors in small business.

RATIONALE

With the introduction of the Community Bonds Program, Saskatchewan residents have a new way to invest in the future of their community with government backing. The former grant program is no longer required.

The shift to Community Bonds is consistent with the government's general direction away from direct grants.

Community Bonds will increase broader based individual participation and responsibility for economic development.

FRENCH SCHOOL GOVERNANCE

MEASURE	There will be no provincial funding for French School Governance in 1991-92.
EFFECTIVE DATE	April 1, 1991
EFFECT ON PUBLIC PURSE	$2.5M
AFFECTED PERSONS/GROUPS	Francophones, School Boards
RATIONALE	Federal offloading has become a significant problem for the province. The startup of a new school system without a long term commitment from the federal government to fund all of the costs would require the province to assume additional financial responsibility. If the province were to proceed with French School Governance, the cost to Saskatchewan taxpayers would be $21.4M through 1997-98 (net of reimbursement by the federal government). By 1998-99 provincial costs would be about $5-6M per year without renewed federal funding.

MINOR THIRD PARTIES AND NGOs

MEASURE

Aside from major third parties such as hospitals, global funding available for other third parties and non-government organizations will be at last year's level or less.

Funding for these government-supported organizations such as advocacy groups and recreational organizations will in some cases be reduced by up to 25%, or eliminated.

EFFECTIVE DATE

The Ministers responsible will meet with affected parties to determine effective dates.

EFFECT ON PUBLIC PURSE

These program reductions will provide total savings of approximately $4.0M for 1991-92.

AFFECTED PERSONS/GROUPS

Organizations/agencies which receive grant funding from government.

RATIONALE

- Funding will be repriorized to ensure that groups providing priority services will receive adequate funding.
- Significant portion of government expenditures are to outside groups. If government is to reduce its deficit, these groups must participate in restraint.